

Report to the Finance and Performance Management Cabinet Committee



**Epping Forest
District Council**

Date of meeting: 22 September 2008

Portfolio: Finance and Performance Management

Subject: Insurance Performance Monitoring

Officer contact for further information: Brian Moldon – (01992 – 56 4606)

Democratic Services Officer: Gary Woodhall - (01992 - 56 4470)

Recommendations/Decisions Required:

- (1) To note the insurance trends and the savings so far achieved from the increase in the public liability excess; and**
- (2) To confirm that the policy excesses should remain the same until the end of the current long-term agreement in 2010.**

Executive Summary:

This report sets out the savings achieved through the decision Members took in 2005 to increase the Council's level of excess on public liability insurance.

Reasons for Proposed Decisions:

The Committee's Terms of Reference include: "To advise and make recommendations to the Cabinet on risk management and insurance issues."

This report is intended to update Members and to confirm the level of risk Members wish to take on insurance excesses going forward.

Other Options for Action:

Members could decide to reduce or increase the insurance excesses before the end of the current long-term agreement.

Report:

1. At Cabinet on 6 June 2005, it was agreed to enter into a five year agreement with Zurich Municipal for our insurance cover and that the excess level on the Public Liability policy be increased from £500 to £5,000 in order to make a saving on our insurance premiums of £69,030 per year.
2. The saving was achieved as the Council was increasing its share of the risk and thereby reducing the insurers risk, in that we would be paying the first £5,000 of any claim before the insurers would incur any costs. If the Council decides at any future date that it wishes to either reduce or increase any excesses, then the premium would increase or decrease to take account of the risk being incurred by the Council.
3. A recent internal audit report recommended that yearly reports should go to members to review the trends in claims and to review whether the decision taken by the Council to

increase the public liability excess in exchange for a reduction in premiums is still resulting in savings to the Council.

Claim Trends

4. Claims trends are monitored regularly by the Senior Finance Officer and reported to the Director of Finance & ICT on a quarterly basis. The insurance year is from 30th June to 29th June the following year. A summary of the claims trend can be seen below.

Policy	Pre 2004/05	Insurance Year 2005/06		Insurance Year 2006/07		Insurance Year 2007/08	
	Open	Open	Closed	Open	Closed	Open	Closed
Motor	0	0	36	3	46	17	32
Property	0	2	26	6	37	20	25
Casualty	9	7	32	10	26	26	9
Total	9	9	94	19	109	63	66

5. The majority of motor claims only relate to damage to our own vehicle and therefore most claims are settled within two to three months. Property claims can be anything from an escape of water where redecoration is required, to a fire at the property resulting in major works being undertaken to re-instate the property. The claims can take anything from three / four months up to two to three years to settle.
6. Casualty claims consists of Public and Employers Liability, Fidelity Guarantee, and Official Indemnity claims. These claims will normally take anywhere from seven / eight months to two / three years. On average over 50% of all public liability claims will be successfully repudiated. A table below shows the split of closed casualty claims between paid out and repudiated.

Casualty Claims	Insurance Year 2005/06		Insurance Year 2006/07		Insurance Year 2007/08	
	Paid	Repudiated	Paid	Repudiated	Paid	Repudiated
	8	24	5	21	3	6

7. It is also important to keep a review of the ratio between how much the Council pays out in premiums to our insurer, against the amount the insurer pays out in claims. The table below shows the premium to cost ratio for the different policies.

Policy		2005-06	2006-07	2007-08
Motor	Premium	£71,500	£77,952	£83,954
	Costs paid	£33,018	£43,242	£50,045
	Ratio	46.18%	55.47%	59.61%
Property	Premium	£278,645	£300,612	£317,056
	Costs paid	£127,655	£196,994	£218,365
	Ratio	45.81%	65.53%	68.87%
Casualty	Premium	£176,889	£164,429	£170,021
	Costs paid	£104,271	£88,672	£69,787
	Ratio	58.95%	53.93%	41.05%

8. Although the Council is in a five year long term agreement with our insurers, within this agreement they are entitled to increase the rate they charge each year for the motor policy. The property premium increase is generated by the inflationary increase in re-building costs. On average the sums insured goes up by 4 to 5% each year. The casualty premiums is linked to the Council's salary costs. The reduction in premiums for 2006/07 was as the result of the staff at four leisure centres transferring to SLM.

9. The costs paid include reserve figures for claims that are yet to be settled, therefore, this can be seen as a worst-case scenario. The table shows that the insurers profit ratio on the motor and property claims are reducing, however, the casualty ratio has substantially increased. The reason for this is that the numbers of claims where the insurers are paying out are reducing. Caution needs to be exercised as claims can continue to come in for previous year claims and therefore these figures could substantial change if a large claim was to be made.

Public Liability

10. Following the introduction of the increase in the public liability excess, management has constantly kept the impact under review. The table below shows that currently the Council has made a saving year on year. However, it should be noted that claims for a previous year can still be made in the future years, which would have an impact on these savings.

	2005-06	2006-07	2007-08
Excess paid / potentially to be paid	£19,643	£46,260	£39,027
Excess paid if still on old value	£5,770	£5,767	£9,363
Increase in excess	£13,873	£40,493	£29,664
Savings in premiums	-£69,030	-£69,030	-£69,030
Net savings per year	-£55,157	-£28,537	-£39,366
Accumulated Savings	-£55,157	-£83,694	-£123,000

11. The table shows that for the first three years the Council has made a saving of £123,000.

Resource Implications:

The Council has so far achieved a net saving of £123,000 over the first three years. It is difficult to predict future savings, as this is dependent on claims. However, based on the first three years, and the Council being more proactive in risk management, savings are likely to continue from keeping the current policy in place.

Legal and Governance Implications:

None.

Safer, Cleaner, Greener Implications:

None.

Consultation Undertaken:

None.

Background Papers:

None.

Impact Assessments:

No equalities impacts.

The Council has successfully managed its financial risk by reducing the overall cost of insurance. It is recommended that the level of excess, and hence the level of risk, is not changed at this time.